

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lansing Tax Increment Finance Authority	County Ingham
Fiscal Year End June 30, 2006	Opinion Date November 3, 2006	Date Audit Report Submitted to State December 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**TAX INCREMENT FINANCE  
AUTHORITY OF THE CITY OF  
LANSING**

**(A Component Unit of the  
City of Lansing, Michigan)**

**Lansing, Michigan**

**BASIC FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING**  
(A Component Unit of the  
City of Lansing, Michigan)

**TABLE OF CONTENTS**

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	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1-2
<b>Basic Financial Statements for the Year Ended June 30, 2006</b>	
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet – Governmental Funds	5
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	6
Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	9
Notes to Basic Financial Statements	10-15
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	16-17



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

November 3, 2006

Board of Directors  
Tax Increment Finance Authority of the City of Lansing  
City of Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the ***Tax Increment Finance Authority of the City of Lansing, a component unit of the City of Lansing, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the ***Tax Increment Finance Authority of the City of Lansing*** as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of Tax Increment Finance Authority of the City of Lansing's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## **BASIC FINANCIAL STATEMENTS**

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING  
Statement of Net Assets  
June 30, 2006**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 274,322
Property tax receivable, net	29,135
Prepaid items and other assets	<u>44,375</u>
<b>Total assets</b>	<u>347,832</u>
<b>Liabilities</b>	
Accounts payable	10,700
Long-term debt:	
Interest payable	8,733,361
Due within one year	2,372,519
Due in more than one year	<u>30,407,176</u>
<b>Total liabilities</b>	<u>41,523,756</u>
<b>Net assets</b>	
Unrestricted (deficit)	<u><u>\$ (41,175,924)</u></u>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING  
Statement of Activities  
For the Year Ended June 30, 2006**

<b>Functions / Programs</b>	<b><u>Expenses</u></b>
Governmental activities:	
Development	<u>\$ 3,716,189</u>
General revenues:	
Property taxes	4,980,319
Unrestricted investment earnings	<u>80,192</u>
Total general revenues	<u>5,060,511</u>
Change in net assets	1,344,322
Net assets (deficit), beginning of year	<u>(42,520,246)</u>
<b>Net assets (deficit), end of year</b>	<b><u><u>\$ (41,175,924)</u></u></b>

The accompanying notes are an integral part of these financial statements.



**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING  
Balance Sheet  
Governmental Funds  
June 30, 2006**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Totals</b>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 274,322	\$ -	\$ 274,322
Accounts receivable	29,135	-	29,135
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 303,457</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 303,457</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 10,700	\$ -	\$ 10,700
Deferred revenue	29,135	-	29,135
Total liabilities	39,835	-	39,835
<b>Fund balance</b>			
Unreserved, undesignated	263,622	-	263,622
<b><u>TOTAL LIABILITIES AND FUND BALANCE</u></b>	<b><u>\$ 303,457</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 303,457</u></b>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
June 30, 2006**

Fund balance - Governmental Funds	\$ 263,622
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Amounts reported for governmental activities in the statement of net assets are different because:

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred taxes receivable	29,135
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Costs associated with the issuance of bonds are expended in the individual funds, but are capitalized and amortized over the life of the bonds in the statement of net assets.

Add: deferred charges for bond issuance costs	44,375
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: accrued interest on long-term debt	(8,733,361)
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Deduct: long-term debt	(32,779,695)
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Net assets (deficit) of governmental activities	\$ <u>(41,175,924)</u>
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The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Totals</b>
<b>Revenue</b>			
Property taxes	\$ 4,951,184	\$ -	\$ 4,951,184
Interest	80,192	-	80,192
Total revenue	5,031,376	-	5,031,376
<b>Expenditures</b>			
Professional services	240,633	-	240,633
Capital outlays - courts	526,318	-	526,318
Office expense	461	-	461
Debt service:			
Principal	-	2,181,953	2,181,953
Interest	-	1,963,047	1,963,047
Total expenditures	767,412	4,145,000	4,912,412
Revenue over (under) expenditures	4,263,964	(4,145,000)	118,964
<b>Other financing sources (uses)</b>			
Transfers in	-	4,145,000	4,145,000
Transfers out	(4,145,000)	-	(4,145,000)
Total other financing sources (uses)	(4,145,000)	4,145,000	-
Net change in fund balance	118,964	-	118,964
Fund balance, beginning of year	144,658	-	144,658
<b>Fund balance, end of year</b>	<b>\$ 263,622</b>	<b>\$ -</b>	<b>\$ 263,622</b>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2006**

Net change in fund balance - General fund	\$ 118,964
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Amounts reported for *governmental activities* in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: change in deferred taxes receivable	29,135
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct: amortization of bond issuance costs	(3,287)
Deduct: change in accrued interest on bonds	(982,444)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,181,954
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Change in net assets of governmental activities	\$ 1,344,322
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The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF  
THE CITY OF LANSING**  
**Statement of Revenue, Expenditures, and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For the Year Ended June 30, 2006**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Budget</b>
<b>Revenue</b>			
Property taxes	\$ 4,999,639	\$ 4,951,184	\$ (48,455)
Interest	25,200	80,192	54,992
Total revenue	<u>5,024,839</u>	<u>5,031,376</u>	<u>6,537</u>
<b>Expenditures</b>			
Professional services	259,982	240,633	(19,349)
Capital projects - courts	582,642	526,318	(56,324)
Office expense	-	461	461
Total expenditures	<u>842,624</u>	<u>767,412</u>	<u>(75,212)</u>
Revenue over expenditures	4,182,215	4,263,964	81,749
<b>Other financing source</b>			
Transfers out	<u>(4,145,000)</u>	<u>(4,145,000)</u>	<u>-</u>
Net change in fund balance	37,215	118,964	81,749
Fund balance, beginning of year	<u>144,658</u>	<u>144,658</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 181,873</u></u>	<u><u>\$ 263,622</u></u>	<u><u>\$ 81,749</u></u>

The accompanying notes are an integral part of these financial statements.

# TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

## Notes To Basic Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – The Tax Increment Finance Authority of the City of Lansing (the “Authority”), a component unit of the City of Lansing, was established by the City of Lansing (the City) on May 26, 1981, under the authority contained in Act 450, Michigan Public Acts of 1980 (the Act). The Act authorizes the City to designate specific districts within its corporate limits as Tax Increment Finance Authority Districts (the Districts). The Authority is appointed to preside over such Districts, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization and historic preservation within the Districts. The Act allows the Authority to participate in a broad range of improvement activities intended to contribute to economic growth and prevent property value deterioration. Tax increment financing plans must be approved by the City.

The Authority is a component unit of the City of Lansing, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

**Government-wide and Fund Financial Statements** – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. G

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable activities with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational requirement of a particular function or identifiable activity. Property taxes not properly included among program revenues are reportable instead as general revenues.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

# TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

## Notes To Basic Financial Statements

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

- General fund
- Debt service funds

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for and the payment of, interest and principal on bonded debt.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

***Long-term Obligations*** – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# **TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING**

## **Notes To Basic Financial Statements**

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***Budgetary Information*** – The Authority has established the following procedures for determining the budgetary data presented in the accompanying financial statements:

- The secretary of the Authority's Board of Directors submits to the City Council of the City of Lansing a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to July 1<sup>st</sup>, the budget is legally adopted by City Council resolution, pursuant to the Uniform Budgeting and Accounting Act (P.A. 621). This act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or to allow expenditures in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget and shall not exceed the amount appropriated.
- Formal budgetary integration is employed as a management control device during the year for the funds.
- Budgets are adopted on a basis consistent with generally accepted accounting principles.
- The budget is adopted at the functional level as reported in the budgetary comparison schedules, which are included as required supplementary information. Expenditures may not exceed budget at the functional level.

## **2. CASH AND INVESTMENTS**

***Deposits*** – At year-end, the carrying amount and bank balance of the Authority's deposits were \$30,271. The entire bank balance was covered by federal depository insurance.

***Investments*** – The Authority's entire investment balance of \$244,051 as of June 30, 2006 consisted of unrated money market funds. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Authority's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Authority's name.

The Authority follows the investment policy of the City of Lansing.



# **TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING**

## **Notes To Basic Financial Statements**

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### **3. LEASE CONTRACT**

On December 20, 1994, the Authority entered into a 20-year lease contract with the City of Lansing to assist in the financing of various automobile parking structures and lots. Upon termination of the contract in accordance with the provisions of Section 2, the City shall convey the project and the sites to the Authority without consideration if permissible under the City Charter and applicable State law and the City ordinances by deed and appropriate bills of sale in such form and manner as may be approved by the City Attorney. The lease amortization is disclosed in Note 4.

### **4. LONG-TERM DEBT**

On December 17, 1994, the Authority issued \$25,108,133 in general obligation tax increment bonds with an average interest rate of 6.55%, to provide funds for additional work on the Convention/Exhibition Center waterfront project and to advance refund \$23,625,000 in outstanding 1992 Tax Increment Bonds with an average interest rate of 5.1%. All defeased debt was paid as of June 30, 2005. Principal and interest on the obligation are expected to be satisfied through incremental tax revenues levied for the Authority. The bonds are collateralized by the Convention/Exhibition Center District revenues and the pledged full faith, credit and limited taxing power of the City. The defeasance was approved by board resolution on December 7, 1994.

On November 16, 1999, the City of Lansing and County of Ingham Joint Building Authority issued \$13,000,000 in general obligation tax increment bonds with an average interest rate of 5.45% to provide funds for circuit court relocation expenditures. Of this issue, \$7,000,000 in principal plus interest is expected to be satisfied through tax increment revenues levied for the Authority. The Authority will satisfy these payments only to the extent of capture.

# TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

## Notes To Basic Financial Statements

Annual debt service requirements to maturity for the Authority's debt, are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 2,372,519	\$ 1,862,481	\$ 4,235,000
2008	2,578,305	1,766,695	4,345,000
2009	2,790,601	1,669,399	4,460,000
2010	3,011,495	1,568,505	4,580,000
2011	3,244,591	1,455,409	4,700,000
2012-2016	14,653,056	8,686,944	23,340,000
2017-2020	4,129,129	17,370,871	21,500,000
	<b>\$ 32,779,696</b>	<b>\$ 34,380,304</b>	<b>\$ 67,160,000</b>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
1994 Tax Increment Bonds	\$ 6,918,133	\$ -	\$ -	\$ 6,918,133	\$ 42,828
1994 Lease Contract - City of Lansing	28,043,516	-	(2,181,953)	25,861,563	2,329,691
Accrued Interest	7,750,917	1,014,264	(31,820)	8,733,361	-
	<u>\$42,712,566</u>	<u>\$ 1,014,264</u>	<u>\$ (2,213,773)</u>	<u>\$ 41,513,057</u>	<u>\$ 2,372,519</u>

## 5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Lansing bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Ingham. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

# **TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING**

## **Notes To Basic Financial Statements**

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Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Tax Increment Finance Authority of the City of Lansing district to the extent that the current taxable value exceeds the base year taxable value.

### **6. RELATED PARTY TRANSACTIONS**

The Economic Development Corporation of the City of Lansing (EDC) provides administrative services to the Authority; the Authority and the EDC share a common board of directors.

Administrative fees, consisting of personnel costs charged to the Authority by EDC, were \$240,633. The Authority has no liability for compensated absences or pension benefits.

### **7. SUBSEQUENT EVENT**

In September 2006, the Michigan Tax Tribunal Board issued a decision on a valuation appeal by owners with property inside the TIFA district. The appeal related to taxes that were captured by the Authority in 2003-2005 and due to the decision, the Authority will need to pay back to affected property owners approximately \$590,000. This decision also negatively impacted the 2006-07 revenue projections.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 3, 2006

Board of Directors  
Tax Increment Finance Authority of  
the City of Lansing  
City of Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major funds of the ***Tax Increment Finance Authority of the City of Lansing, a component unit of the City of Lansing, Michigan*** as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tax Increment Finance Authority of the City of Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Tax Increment Finance Authority of the City of Lansing in a separate letter dated November 3, 2006.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tax Increment Finance Authority of the City of Lansing financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



November 3, 2006

To the Board of Directors of the  
Tax Increment Finance Authority  
of the City of Lansing  
Lansing, Michigan

We have audited the financial statements of Tax Increment Finance Authority of the City of Lansing for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated September 11, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Tax Increment Finance Authority of the City of Lansing. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Tax Increment Finance Authority of the City of Lansing are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Tax Increment Finance Authority of the City of Lansing during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Tax Increment Finance Authority of the City of Lansing's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Tax Increment Finance Authority of the City of Lansing, either individually or in the aggregate, indicate matters that could have a significant effect on the Tax Increment Finance Authority of the City of Lansing's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tax Increment Finance Authority of the City of Lansing's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson".

# **Tax Increment Finance Authority of the City of Lansing**

## **Comments and Recommendations**

**For the Year Ended June 30, 2006**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated November 3, 2006 on the financial statements of the Tax Increment Finance Authority of the City of Lansing.

### **Internal Control – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Authority's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Authority's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

We are pleased to note that for the 2007 fiscal year the Authority has turned over the accounting function to the City of Lansing. This will help ensure proper segregation of duties.



# **Tax Increment Finance Authority of the City of Lansing**

## **Comments and Recommendations**

**For the Year Ended June 30, 2006**

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### **Other Internal Control Considerations – Journal Entries**

A As part of our audit, we examined various journal entries to comply with Statement of Auditing Standards (SAS) 99 requirements. We noted that journal entries prepared by employees are not kept with adequate supporting documentation and are not initialed or signed by someone other than the preparer as a check for journal entry completeness and accuracy. Although the Authority did have an outside accounting firm proposing journal entries and assisting with accounting functions, we recommend that all journal entries be initialed and dated by both the preparer and reviewer in order to enhance internal controls.

As noted above, the accounting function of the TIFA will be handled by the City of Lansing in future years.

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